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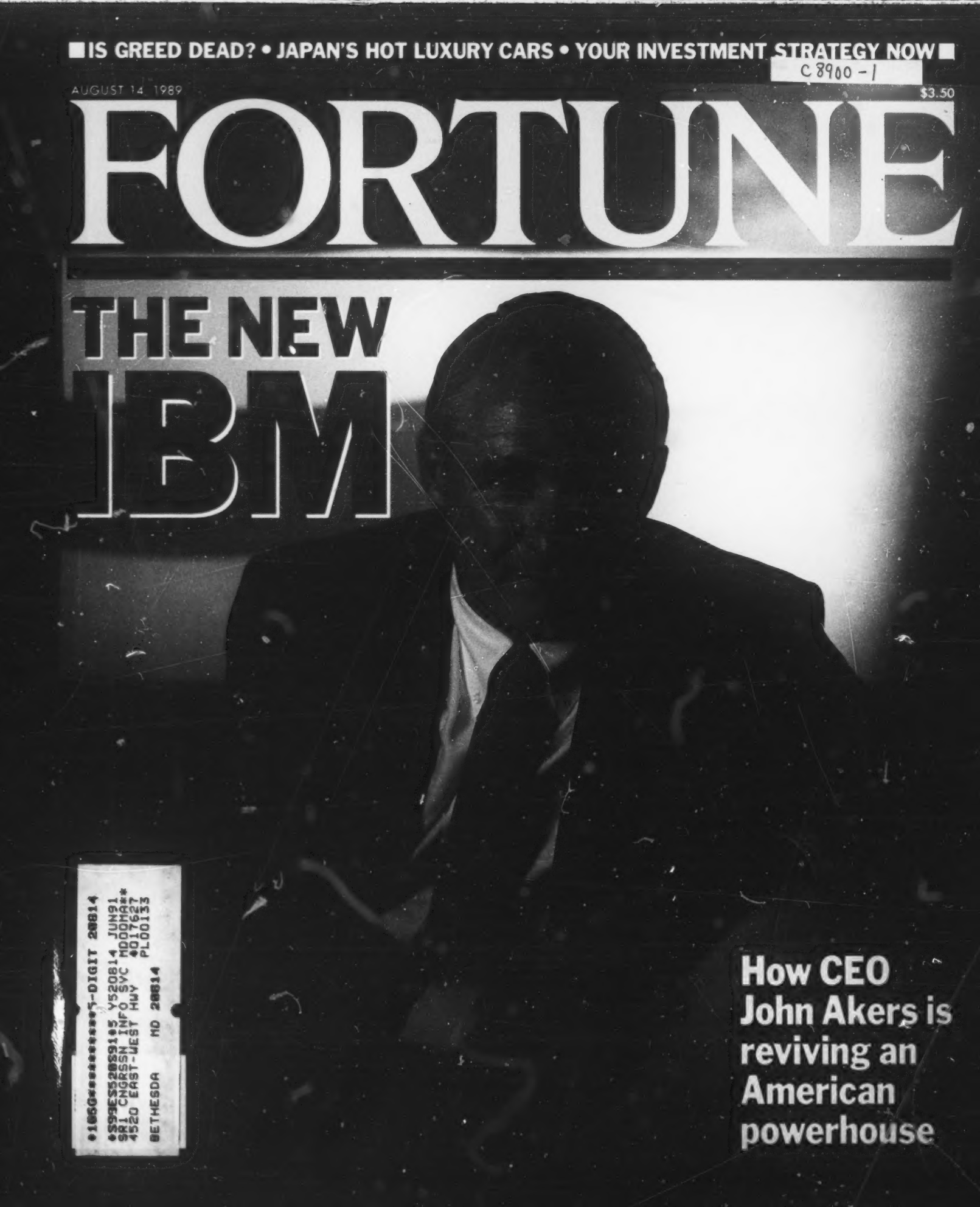
THE NEW IBM



How CEO John Akers is reviving an American powerhouse

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COVER AND ABOVE: IBM CEO John Akers was photographed at the company's headquarters in Armonk, New York, by Gregory Heisler.

Managers don't waste time politicking. Now the final arbiter is one level up. PAGE 30

MANAGING/Cover Story

REINVENTING IBM 30

CEO John Akers has shattered tradition by publicly discussing the company's shortcomings. Better yet, he has set out to fix them. He's reorganized the bureaucracy so that managers have clear authority to get their jobs done. And he's redefined the purpose of those jobs. Akers wants to make IBM the "world's champion in meeting the needs of customers." Talk to other executives—and to the customers—and you see that he means it. *by Joel Dreyfuss*

THE SOCIETY

IS GREED DEAD? 40

The party may be over for the Money Society of the 1980s. The idea that what is most important in life is making big bucks is giving way to a belief that getting involved in public service matters. Having found little solace in shopping sprees, yuppies are cutting back on flashy spending. Instead, saving and family are in, and helping has become hip. *by Ronald Henkoff*

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HOW CAPITAL COSTS CRIPPLE AMERICA 50

The stunted national savings rate raises capital costs and discourages investment, killing some worthwhile projects. That gives the overseas rivals of U.S. manufacturers a solid advantage. Three key changes in tax law would help to close the gap. *by Louis S. Richman*

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By allowing Time Inc. to buy Warner and repel Paramount's hostile bid, a Delaware court backed directors over stockholders in picking the path to corporate value. As a result, look for changes in managerial behavior. *by Bill Saporito*

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First out of the gate, Toyota's Lexus is faster, quieter, and more comfortable than the West German entries. What's more, it's dramatically cheaper. Question: Will Americans forgo Teutonic mystique? *by Alex Taylor III*

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"For better or worse, first the British and then the Continental takeover markets are going to look like the U.S."

PAGE 14

"The reason we're here on earth is not just to earn money and drive a BMW."

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"Since we don't belong to their country clubs, we don't have access to where the sweetheart deals are done."

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"We're losing very good people in the government over the question of pay."

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"Great corporations aren't created by single heroic deeds but by continuous small things done right."

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"I'm a dollar-a-year man now."

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With a lot of help from Ford Motor Co., their ranks are growing. But don't look for many of them to locate in the ghetto—or under the sign of a foreign carmaker. *by Faye Rice*

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EDITOR'S DESK

Writer Dreyfuss at IBM's customer center in New York

GETTING INTO THE SOUL of IBM can be as hard as breaking into Fort Knox. But one man with the key is associate editor Joel Dreyfuss, who has long been observing the fundamental changes under way at this tremendous global enterprise. As FORTUNE's Tokyo bureau chief from 1986 to 1988, he wrote about IBM's experiments with new—and ultimately successful—strategies to win back customers it was losing to Fujitsu and NEC.

For this issue's cover story Dreyfuss and reporter Susan Caminiti interviewed dozens of executives of IBM and its competitors—and were astounded by the sweep of change. Chief Executive John Akers, says Dreyfuss, "was amazingly blunt about mistakes IBM has made in the past." Akers is working to make Big Blue much more responsive to customers and is shaking the corporate culture to its core. Says Charles Burck, who edited the story: "IBM's executives and customers clearly talked candidly, but it was Joel's instinct for the telling detail that revealed the critical evidence."

Dreyfuss is well equipped to plumb developments at the world's computer companies. Son of a Unesco official from Haiti, he grew up in such faraway places as Paris and Monrovia, Liberia, developing an interest in ham radio to keep in touch with others. When personal computers came out he embraced them, partly to tap into electronic bulletin boards. He still queries techies on CompuServe to get the latest on new products. "It can be better than ham radio," he says.

The most recent challenge from Japan comes not in computers but luxury cars. To assess Toyota's new $35,000 Lexus, due to arrive in America in August, associate editor Alex Taylor traveled to remote northern Japan, where he became the first American journalist ever allowed inside Toyota's private test track. His conclusion: "Toyota has made an amazing leap from a manufacturer of good but pedestrian cars to a producer of one of the best cars in the world." On a West German *Autobahn* Taylor had already taken a Lexus up to 150 mph before prudence made him stop. His story moves along just as smoothly as a Lexus, and once started, you won't want to stop.

Writer Taylor aboard a Toyota Lexus in West Germany

Marshall Loeb
MANAGING EDITOR

FORTUNE (ISSN 0015-8259). Published biweekly, with three issues in October, by The Time Inc. Magazine Company. Principal office: Time & Life Building, Rockefeller Center, New York, NY 10020-1393. Reginald K. Brack Jr., President; Michael J. Klingensmith, Treasurer; Harry M. Johnston, Secretary. Subscriptions: U.S., possessions one year (27 issues) $47.97; Canada one year (27 issues) $64.53. Second-class postage paid at New York, NY, and at additional mailing offices. Authorized as second-class mail by the Post Office Dept., Ottawa, Canada, and for payment of postage in cash. Member, Audit Bureau of Circulations. POSTMASTER: Send address changes to FORTUNE, P.O. Box 30604, Tampa, Fla. 33630-0604. Customer inquiries: FORTUNE, P.O. Box 60001, Tampa, Fla. 33660-0001. Phone: 1-800-541-1000. © 1989 The Time Inc. Magazine Company. All rights reserved. FORTUNE is a registered mark of The Time Inc. Magazine Company. **For subscription queries, call Customer Service at 1-800-541-1000.**

Landing gear down, the Stealth bomber takes its maiden flight from an Air Force base in California. At right: the Osprey, aloft over Texas.

THE PORK BARREL AND THE STEALTH

■ Chief executives at major defense contractors, such as **Northrop**'s Thomas Jones, will be gritting their teeth as Congress takes the knife to the Pentagon's proposed $306 billion budget. But don't look for fatalities among the manufacturers. Congress will reach a compromise, stretching out production. This will save money and jobs for now but will send unit costs into orbit.

Thomas Jones

Programs at risk:

■ Northrop's Stealth bomber. At $530 million each, the radar-evading B2 has become the symbol of a big defense program gone awry. Half Northrop's 1988 revenue of $5.8 billion and 12,000 of its 44,000 workers are involved in the project. But even if Congress cancels the program outright, the company would still have a good shot at getting much of the $75 billion proposed for the Advanced Tactical Fighter, a Stealth jet. Northrop could build it at the B2 plant. **Lockheed** has been virtually hand-building similar fighters for years—and Air Force pilots have flown them. But Lockheed doesn't have a suitable factory.

■ **Grumman**'s F-14D fighter plane. Defense Secretary Cheney doesn't want to buy 127 modernized versions of the F-14 at $50 million apiece. If Congress agrees, it would be a body blow to Grumman, which would have to lay off or transfer as many as 5,000 of its 30,000 workers. Grumman could modernize most of the Navy's 470 current F-14s at up to $40 million each.

■ **Boeing** and Bell Helicopter's V-22 Osprey. Do the Marines really need 552 tilt-rotor planes, which can take off like helicopters, at $23 million a copy? More than 3,000 jobs are at stake at the two companies. But Boeing is prospering from its commercial airplanes. Bell's parent, **Textron**, needs the project more.

The inevitable congressional compromise will be the same old story. Says Paul Nisbet, a Prudential-Bache analyst: "The real argument isn't over cost. It's over pork barrel."

– Anthony Ramirez

MOVE OVER, MTV . . .

■ Next time you see a TV news anchor nodding wisely at what a chief executive or somebody else important or famous has to say, remember that the newscast footage, prepackaged as video news releases (VNRs), may come directly from corporations. VNRs tell a story, tout a product, or publicize an event. The best so faithfully imitate actual news segments that network, local, or cable news editors desperate for filler can run them unedited, as some of them do.

Medialink, a Manhattan service that distributes VNRs by satellite, also tracks their ratings. Here are the most widely viewed Medialink releases for the first six months of the year (along with the number of viewers in millions):

■ **Sears** announces the shutdown of its stores for repricing all its merchandise (70.2).

■ **HBO** displays a video version of the *Sports Illustrated* swimsuit issue (45.6).

■ **Showtime** promotes pay-per-view coverage of a Robbie (spawn of Evel) Knievel motorcycle stunt (39.8).

■ **Disney** catches quarterback Joe Montana in an "unguarded" moment saying that he will go to Disneyland after the Superbowl (18.2).

■ Barbara Bush speaks out against child abuse for **Childhelp USA** (15.7).

■ The **Las Vegas Visitors' Bureau** depicts Valentine's Day nuptial action in wedding chapels across the city (15.1).

■ **Maytag** says Jesse White, the company's veteran Lonely Repairman, will retire (14.8).

■ **Disney** opens its "Blast to the Past" at Disneyland by showing Chubby Checker still alive and twisting (14.8).

– Alan Farnham

HOW TEN TOP LAW FIRMS GROSSED OUT

■ Last year was boom time for U.S. corporate law firms that reeled in the moola from a spate of takeovers, leveraged buyouts, mergers, and other deals. The *American Lawyer* figures that the top 100 grossed $10.6 billion, a 23% increase over 1987. Editor Steven Brill says the magazine got most of the numbers in: confidence from the firms themselves and used informed estimates for others. But he doesn't say which are which. These ten grossed the most.

Firm	Gross Revenues $ millions
SKADDEN ARPS SLATE MEAGHER & FLOM New York	**$440**
JONES DAY REAVIS & POGUE Cleveland	**$264**
BAKER & MCKENZIE Chicago	**$261**
GIBSON DUNN & CRUTCHER Los Angeles	**$236**
SHEARMAN & STERLING New York	**$228**
DAVIS POLK & WARDWELL New York	**$213**
SULLIVAN & CROMWELL New York	**$210**
CRAVATH SWAINE & MOORE New York	**$200**
FRIED FRANK HARRIS SHRIVER & JACOBSON New York	**$194**
LATHAM & WATKINS Los Angeles	**$187**

IS GREED DEAD?

The party may be over for the Money Society of the 1980s. Flashy spending is out, saving and family are in, and helping has become hip. Credit yuppies in part. ■ *by Ronald Henkoff*

DON'T DOFF your designer dinner jacket just yet, but be warned: The long, glittery banquet may be coming to a close, the waiters serving the final candied course. The watchwords of the Eighties—make big bucks, borrow, spend, and flaunt—have not disappeared. But new conceits are creeping into the social lexicon, notions like save, nurture, and share. Is greed dead? No, not really. It is—and probably always will be—alive and well in Washington, on Wall Street, even among certain citizens of Small Town U.S.A. But evidence suggests that the great decade-long national binge is beginning to leave a funny taste in the mouth and that America is searching for a more balanced diet.

The conspicuous consumption, cold careerism, and self-centered spirit that made up so much of business as usual in the Eighties now come across as a bit tacky at best, ruinous at worst. Ivan Boesky, the arbitrager who told an applauding Berkeley university audience in 1985 that "greed is healthy," now has time to contemplate ethics at the Lompoc federal prison camp in California. Former House Speaker Jim Wright and Democratic whip Tony Coelho have forfeited the positions they loved, tainted by allegations that they bent the rules to enrich themselves. Michael Milken, high priest of junk bonds and recipient of a $550 million pay package in 1987, has been indicted and let go by his firm. Leona Helmsley, self-styled queen, ends up on trial as a tax cheat of regal proportions.

The forces of reform, moderation, and probity appear to be gaining ground. Rudolph Giuliani, who as federal prosecutor helped bust Boesky, Milken, and assorted mobsters, is running for mayor of New York City—and doing well in the polls. The press voices outrage at exorbitant executive salaries and investment banking fees, and the public takes up the cry. Jack Kemp vows to clean up an influence-peddling mess at the Department of Housing

PAUL FETTERS

JOHN S. ABBOTT

> *"The 1990s should be the turn for young men and women who came of age in the Kennedy years."*
>
> **– ARTHUR SCHLESINGER JR.**
> HISTORIAN

and Urban Development inherited from the oh-so-fun Reagan years, vowing that future subsidies will help the "needy, not the greedy."

None of these developments point, ipso facto, to a nascent epidemic of piety and altruism. "Conscience," as H. L. Mencken observed, "is the inner voice that warns us someone may be looking." But as the high and mighty tremble and topple, the rest of us *are* pulling back from the excesses of the Eighties. We are buying more temperately, saving more deliberately, and borrowing more prudently.

Three out of four working Americans age 25 to 49 would like "to see our country return to a simpler lifestyle, with less emphasis on material success," according to a poll by Research & Forecasts for Chivas Regal, a Seagram brand. Phony nostalgia? Perhaps a little. But look at the trends: The growth of real per capita consumer spending is down from around 3.5% a year in the mid-Eighties to 1.9% last year. The savings rate bottomed out at 3.2% of disposable personal income in 1987 and has trended slowly upward ever since, reaching 5.2% recently. The growth of per capita consumer debt is down from 9.2% in 1985 to 3.2% last year.

> *"From now on, any definition of a successful life must include serving others."*
>
> **– GEORGE BUSH**
> PRESIDENT

The "national mood," never easy to chart in a country of 249 million, doesn't necessarily change with the passing of a decade or the arrival of a new President. But George Bush does seem to have given voice to a widespread yearning for a shift toward values that aren't calibrated in BMWs, Burberrys, and beach houses. "We are not the sum of our possessions," he said at his inauguration. "We cannot hope only to leave our children a bigger car, a bigger bank account. We must hope to give them a sense of what it means to be a loyal friend; a loving parent; a citizen who leaves his home, his neighborhood, and town better than he found it."

THE AMERICAN FAMILY, sundered, maligned, and neglected for so many years, is edging back toward center stage. Marriage remains popular, the divorce rate hasn't budged since 1986, and the birth rate is rising. For many harried parents, the workaholic ethic of the Eighties has begun to fray some, abraded by a growing desire to spend more time with the kids. When the Chivas Regal poll asked working Americans to identify the most important indicator of success, 62% said "a happy family life." Only 10% said "earning a lot of money."

Across America, volunteerism is thriving. The Gallup organization reports that the proportion of adult Americans devoting time to "charity or social service activities" has grown steadily over the past decade, reaching 39% in 1987, the latest year for which figures are available. Call it a vindication of Reaganomics (a sign that the government can't do everything) or a repudiation of Reaganomics (a sign that the government isn't doing enough). What is incontestable is that helping has become hip, especially among college students and young professionals, groups recently notorious for their selfishness. The Campus Outreach Opportunity League (COOL), founded five years ago to encourage community service, now advises volunteer organizations at 550 colleges and universities.

We can see a modest trend away from the lemming parade of the best business and law graduates heading to high-paying, high-pressure jobs at big-name firms. A few are launching nonprofit organizations to aid the poor, the ill, and the illiterate. "There is a reawakening of the need for public commitment in this country," asserts Michael Brown, Harvard College '84, Harvard Law '88. "It's the end of the 'me decade' and the beginning of the 'we decade.'" Brown, 28, is a cofounder of City Year, a Boston "urban peace corps" run primarily by young professionals and backed by $760,000 in corporate and individual donations.

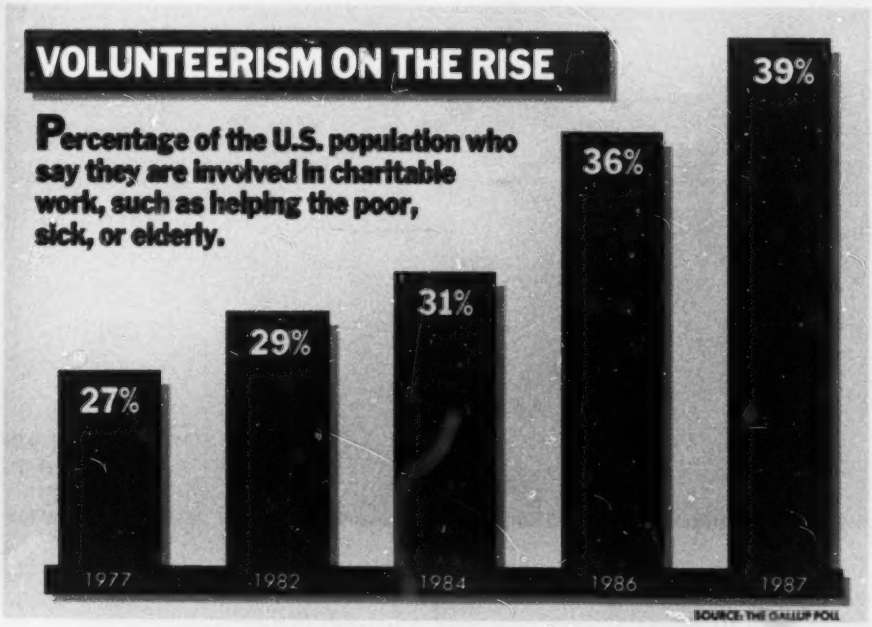
> *"People are trying to use ideals to connect with something beyond their bank accounts."*
>
> **– DOUGLAS LABIER**
> PSYCHOANALYST

Public service, a concept that not too long ago seemed as

KATHERINE LAMBERT

CHARLES ARCHAMBAULT

Maria Foscarinis lobbies for the homeless.



anachronistic as pillbox hats and Apollo moon missions, is making a comeback. Federal legislators have introduced no fewer than nine bills calling for government funding of youth service programs. President Bush recently announced his own plan, Youth Engaged in Service to America, or, in the inevitable snappy acronym, YES to America. The proposal for young people age 5 to 25 will be part of the broader Points of Light Initiative, a $25-million-a-year plan to promote community service. The Bush program, says Charles Moskos, a Northwestern University sociologist and author of *A Call to Civic Service*, "is sort of unfocused, but at least it's the first time a President has spoken like that since John Kennedy."

George Bush, to paraphrase Lloyd Bentsen, is no John Kennedy. But clearly there is more than just hot air to the "new breeze" Bush claims is blowing through America. What's going on?

THE MANIFEST contradictions of the decade now ending are finally catching up with us, argues Rosabeth Moss Kanter, Harvard business professor and author of *When Giants Learn to Dance*, a book about management and careers in the Nineties: "The Eighties were a time of incredible prosperity for some but also a time when average family income was flat, when our infrastructure was crumbling and our educational system was deteriorating. It's not surprising that people in the Nineties are waking up."

Waking up may entail a measure of guilt. Says Ginny Blissert, formerly a New York investment banker: "When you live in the lap of luxury and you walk to work past people living in such poverty, you begin to feel that any little thing you can do must somehow make a difference." Blissert is now a student at Northwestern's Kellogg School of Management, where she serves as a co-chair of Business With a Heart, a student-run community services program.

The undulations of the economy in the past two years have persuaded at least some of us that money is a fickle friend. While the October 1987 stock market crash didn't turn out to be the apocalypse many predicted, it did knock a lot of giddiness and hubris out of the system. Following on the heels of the crash, the slowing appreciation of house prices and the job insecurity brought on by takeovers, restructuring, and foreign competition have been enough to send people in search of firmer foundations for their lives. "Tie your self-esteem too narrowly to your paycheck and you'll be in trouble," observes Laurence Shames, author of a new book titled *The Hunger for More: Searching for Values in an Age of Greed.*

Developer Chris Noon helps with housing.

ANDY LEVIN

It may be too that greed or at least hyperconspicuous consumption has, like many fashions, simply worn itself out. Popular culture no longer glorifies to quite the same extent the acquisitiveness and chicanery of what Thorstein Veblen called the "pecuniary life." *Dynasty* has gone off the air, and *Dallas* has fallen in the ratings. Shows that emphasize home, hearth, and children—*Cosby* and *The Wonder Years*—are thriving. "People don't want to look like they're living too well," argues Ash DeLorenzo, who bears the title trend director at BrainReserve Inc., a New York market consulting firm. Big splurges, such as flashy imported cars and fur coats, are out, he says. Little indulgences—gourmet ice cream, premium vodka, and manicures, for example—are in.

American society, in the view of historian Arthur Schlesinger Jr., oscillates in 30-

year cycles between periods where private pursuits and self-interest predominate (the Roaring Twenties, the Eisenhower Years, the Money Society of the 1980s) and periods where activism and common purpose prevail (the Progressive Era at the beginning of the century, the New Deal, the New Frontier of the early 1960s). "There has been a kind of cyclical rhythm," Schlesinger says, "moving from the belief that having everyone make a fast buck for himself was the best way to save the nation to the notion that public service was the best way." The society avidly pursues personal wealth until, with our oft-chronicled propensity for excess, we burn ourselves out. Then the cycle turns, and we pursue commonwealth.

SOCIAL CRITICS can exaggerate the extremes, and may well have done so with the greediness of the Eighties. To begin with, most Americans can't afford to be seriously spendthrift. A study by the Conference Board and the Census Bureau found that only 28.9% of all American households have discretionary income, defined as the money left in the family kitty after taxes and basic everyday expenditures.

But those who do have discretionary income have been anything but discreet. The icon of the Eighties, as raised up by the media, is the young urban professional—the term yuppie first became widespread in 1983. By now we're all numbingly familiar with the habits and appurtenances of the species—their $90 running shoes, $900 briefcases, and $900,000 condos. It's easy to forget how few of these folks there really are. "Only 0.3% of Americans are both younger than age 40 and earn more than $75,000 per year," *American Demographics* magazine pointed out last year.

Still, as the most conspicuous members of the baby-boom generation, yuppies have had a disproportionate impact on society. They have seemed to embody the aspirations of the 78 million Americans born between 1946 and 1964, a generation that has powered the social movements of the past three decades, whether activism, narcissism, careerism, or materialism.

What made the generation that sought nirvana in the Sixties turn to mammon in the Eighties? James Burke, the thoughtful former chief executive of Johnson & Johnson, believes the answer lies in the double failures of the Vietnam war and the Great Society initiatives: "A lot of people may have said, 'The hell with that. I don't want to go to war, and I'm not going to worry about the social problems either.' " Subsequent developments in the public realm, from Watergate to Contragate, only strengthened that resolve.

Douglas LaBier, a Washington psychoanalyst who directs an effort called the Project on Adult Lives, describes the evolution—or failure to evolve—of the boomers' thinking: "The yuppies are direct descendants of the hippies. Among them you find a lot of cynicism and despair over the inability of idealism to coalesce into any kind of social change or political leadership." LaBier interviewed 220 professionals age 25 to 47 for his 1986 book, *Modern Madness: The Hidden Link Between Work and Emotional Conflict*. His subjects, seemingly healthy people, were often troubled by the values they encountered on the job—as reflected in dishonesty, infighting, and self-aggrandizement. Sometimes, says LaBier, they sought an elusive solace in materialism, going on shopping sprees in an attempt to cure depression or to find some sort of fulfillment.

LaBier believes that much of Eighties greed was motivated by fear, by pervasive anxiety about falling behind economically. For many of the younger boomers, the decade was a time of slipping living standards. From 1979 to 1987 median real family income in households headed by people 25 to 34 declined 6.4%, reports the Census Bureau. Back then some of these sliding boomers plunged into debt just to stay even. They bought fancy *objets* to fool the neighbors—and them-

Kellogg MBA students raised $27,000 for this shelter for battered women and their kids.

selves. "Eighties greed," writes author Shames, "was a nervous, twitchy, looking-over-the-shoulder-while-running-full-speed-ahead sort of affair."

The boomers are moving into middle age, and at least in the near term, their economic situation is likely to improve. This could provide the breathing room they need to embrace new, less frenetic pursuits. More and more of them are getting married, moving to the suburbs, raising kids—in short, settling down. A *Rolling Stone* survey of boomers last year found that 92% had or wanted to have children. Says Peter Meola, 33, a Seagram marketing vice president: "Home life and family have become much more important among the people I associate with. Now it's not so much, 'Let's go to that new restaurant,' or 'Let's see the latest movie,' but, 'Let's get together with our friends and their kids and have a barbecue.' " As the boomers age, predicts Edward Yardeni, chief economist at Prudential-Bache Securities, they will earn more and save more. He thinks they could help boost America's savings rate to 10% over the next five years, a view that other economists find overly optimistic.

Arthur Schlesinger also has great expectations for the older boomers, those born between 1946 and 1957. As they rise to positions of leadership, he predicts, they will bring with them the heady idealism they soaked up during their youth in the Sixties. Critics accuse Democrat stalwart Schlesinger of romanticizing the Sixties: While that turbulent decade did see tremendous advances for minorities and women, it was also a time of assassination, war, and drug abuse. Still, the emotional pull of that era is intense. When the opinion research firm Yankelovich Clancy Shulman asked people in their 30s for their attitudes on the Sixties, 61% viewed it as a constructive period and 51% said they missed the sense of community that existed then.

DOUG MINDEZ

Maria Foscarinis, a former Wall Street lawyer, carries the banner of the Sixties with her in her new job as director of the National Law Center on Homelessness and Poverty. Foscarinis, 33, has an impeccable yuppie résumé. A graduate of Barnard College and Columbia Law School, she clerked for a federal judge, then joined Sullivan & Cromwell, an elite New York firm. Says she: "That's what you're supposed to do if you want to be successful."

> *"Child care has become a major issue with so many of the yuppie genre having kids."*
>
> **– TOD GRANTHAM**
> MANAGER

Foscarinis found the work, which included defending an investment bank embroiled in an insider-trading scandal, intellectually stimulating but not particularly fulfilling. "At the end of the day there's something missing," she says. She yearned for a job that would actively advance her ideals—Sixties ideals, as she sees them—"about how the world should be." So in 1985 she took a pay cut from $70,000 to $10,000 a year and opened the Washington, D.C., office of the National Coalition for the Homeless. Since then, the coalition has successfully championed the cause of the homeless in the courts and Congress. In June, Foscarinis left the coalition to start her own organization, one that will focus more broadly on poverty.

NOT MANY PEOPLE are prepared to rearrange their lives so completely, but many well-paid professionals are making more subtle changes. "People are not giving up material goods," observes Douglas LaBier, "but there's more of a letting go of the need to acquire. The desire to have, to get, to possess becomes more in balance with the other aspects of life." Consider the example of Christopher Noon, 39, a Chicago-area developer who donates large amounts of his time and income to Habitat for Humanity International, a Georgia-based organization that builds houses for poor families and counts among its volunteers Jimmy Carter. Says Noon: "The reason we're here on earth is not just to earn money and drive a BMW."

Boston psychotherapist Steven Berglas similarly sees a growing realization that the Eighties' symbols of success—a prestigious and time-consuming job, a six-figure salary, and an abundance of material possessions—is incomplete: "People are saying, 'I've got money and I've got power, but it's worthless unless I can be happy.' You can only collect so many bottles of Pouilly-Fuissé, and then it becomes grape juice." In increasing numbers, says Berglas, his patients are discovering the joy of helping the community—and becoming part of it—through charitable activities.

Employers may want to pick up on the trend: In the Nineties sponsoring volunteer efforts and giving to charity may prove a valuable way to win the good will of the troops. Some 45% of the respondents to the Chivas Regal poll said they would be more

REPORTER ASSOCIATE *Rosalind Klein Berlin*

loyal to their company if they knew it donated money to a public service cause. MBA students active in Northwestern's Business With a Heart program say that when they hunt for jobs on graduation, they will seek out firms that do *pro bono* work. Observes Shirley Keller, a senior official at Volunteer—The National Center, an information clearinghouse for charitable activities: "It's just beginning to dawn on some companies that community service can be good for productivity, morale, and loyalty."

COMPANIES HAVE an even bigger lesson to learn for the less greedy Nineties: the increasing importance of the family. You can count on the baby-boomers to force the issue of family vs. work onto the corporate agenda. Fully 73% of all women age 25 to 34 now work for pay, as do half of all women with babies under a year old. For them and their husbands, child care, flexible hours, and job sharing are pressing concerns. Says Dana Friedman, co-president of the New York–based Families and Work Institute: "People have no choice but to bring these problems to the workplace."

When Tod Grantham, 33, a Silicon Valley technical manager with a working wife and baby daughter, went looking for a new job, he had strict criteria: Anybody he would work for had to provide child care, flex-time, and "an understanding that the family was not to be secondary." He received several offers, including one that would have paid $5,000 a year more than the post he ultimately accepted at Oracle Corp., a computer software company in Belmont, California, that met his standards. "The more progressive companies realize that there are families out there that were getting shortchanged," says Grantham. "They're starting to pay more attention to home life." Pushing this change in attitude, says Grantham, are yuppies with children.

Well, there they go again, once more at the forefront of social change. As Grantham points out, families, unlike companies, aren't all that susceptible to hostile takeovers or leveraged buyouts. "A family," he says, "has got a lot more longevity to it, and it's not something you want to ignore for the sake of another fast buck." As social philosophies go, that's a few light years away from the notion that greed is healthy, and a good deal more salubrious. If greed isn't dead, it certainly is hurting. F

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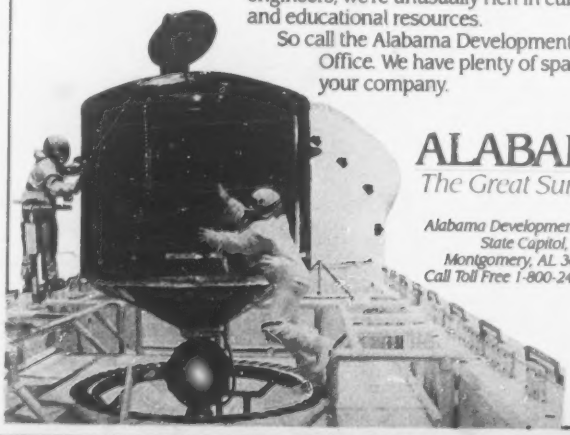

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HOW CAPITAL COSTS CRIPPLE AMERICA

The stunted national savings rate raises the cost of money and discourages farsighted investing. That gives rival manufacturers overseas a big competitive advantage. ■ *by Louis S. Richman*

JAMES SCHNEPF

Shut down: Control Data's promising ETA project in Minneapolis was swept out of the supercomputer sweepstakes by high-cost capital.

AS MANAGEMENT SAW IT, the ETA supercomputer was going to make Control Data a serious competitor in the scientific computing field once again. But by last spring the project had absorbed some $350 million, and further development would have cost $50 million a year before ETA became self-financing in 1991. The bankers were fidgeting, the shareholders clamoring for higher earnings. Meanwhile, Japan's deep-pocketed computer giants, Hitachi, Fujitsu, and NEC, patiently stalked ETA's market. In April, Control Data called it quits. Says former ETA president Carl Ledbetter: "If our capital costs had been lower, ETA could have survived."

Cray Research, the stunningly successful pioneer of high-speed computing, had two promising programs under way to develop the next generation of supercomputers. But each would require investments of $150 million to $200 million to complete—too heavy a load for a company with just $756 million in annual sales. In May, Cray hived off one of the projects to founder Seymour Cray, who is setting up a new venture called Cray Computer Corp. "We try to ignore quarterly earnings, but we can't afford to sustain losses in the supercomputer business and keep shareholders happy long term," says John Carlson, Cray's chief financial officer. "Fujitsu can."

The decisions at Control Data and Cray point up a grave problem for America's

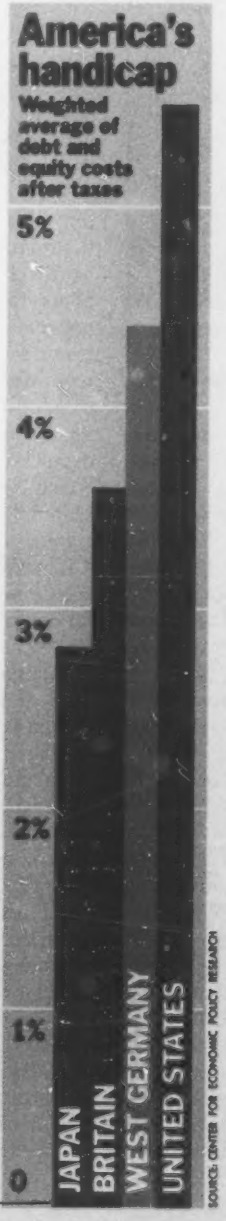
REPORTER ASSOCIATE *Frederick Hiroshi Katayama*

competitiveness, and not just in the supercomputing field. The patient investment capital that companies need to nurture expensive, long-term projects to profitability is costlier in the U.S. than among its major global rivals. American companies pay creditors more interest and have to assure shareholders higher returns.

These costs explain the oft-noted propensity of American corporations to focus on the short run. The cost of capital determines the discount rate companies use to compute the present value of future earnings. The higher the returns investors expect, the higher the discount rate, and the sooner a project has to begin paying off.

How do capital costs compare around the world? A rigorous effort in 1986 to measure them by economists B. Douglas Bernheim of Northwestern and John B. Shoven of Stanford reveals that throughout the 1980s the U.S. has borne the highest cost of capital of the leading industrialized economies (see chart). Simply put, with an after-tax cost of capital nearly twice as high as Japan's, American companies can afford to wait just half as long as their Japanese competitors for capital investments to reach an acceptable level of profitability.

Higher inflation in the U.S. explains only part of the difference: Real interest rates (that is, after the inflation component is deducted) are 5% in the U.S., vs. 3.5% in West Germany and 2.5% in Japan. The blame lies mainly in America's low national savings rate. Like all prices, the price of capital is a matter of supply and demand, with the puny supply of U.S. savings a guarantee that the price will be high. Though the savings rate has risen modestly in the past year, private savings, currently 4.6% of GNP, remain well below the 7% to 8% for most of the postwar period. And with most of what's saved going to finance the federal budget deficit, net national savings available for private investment has shrunk to 2.8% of GNP, the lowest of any major industrial nation.

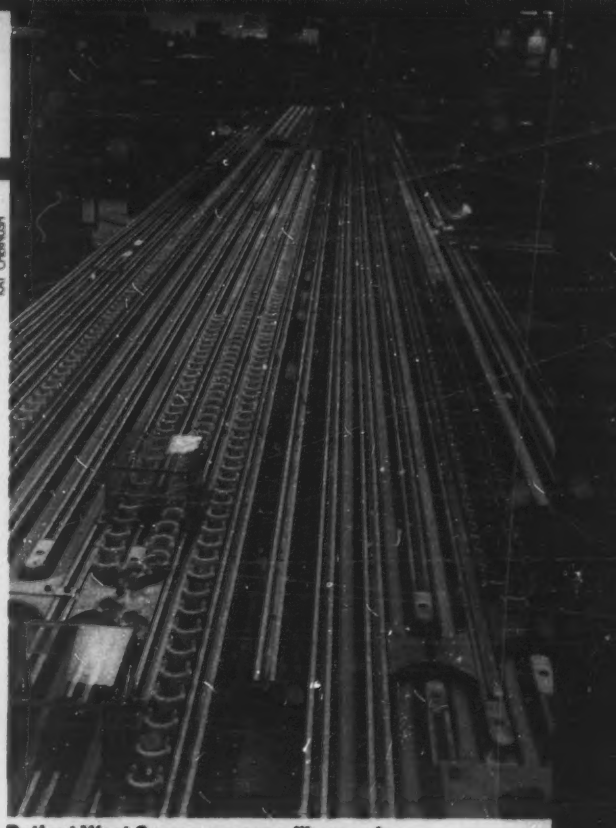


Why worry about the cost of capital now? American companies, after all, have been lifting capital spending as they strain to keep pace with domestic growth and meet strong demand for U.S. exports. FORTUNE estimates that this year real investment will rise a robust 4%, following a 9.5% jump in 1988. The national endowment of capital stock is growing at close to 3% a year, which is about equal to the long-term trend of output. And in recent years American manufacturers have got some of their best productivity gains not from new machinery but from learning to manage the production process more wisely.

But the Japanese, among others, keep working smarter too, and at the same time are spending relatively more on plant and equipment. Compared with its rivals, the U.S. is grossly underspending.

Over the past five years real fixed investment as a percent of GNP has averaged almost 30% in Japan, vs. around 20% in Europe and just under 15% in the U.S. According to Stephen Brooks, an economic consultant, annual gross investment per factory worker in Japan, which was 40% higher than in the U.S. from the early 1970s to the early Eighties, had widened to 85% by 1986 (Brooks adjusted for changes in exchange rates). Japanese companies were investing at a rate of $7,625 on average for each worker, he says, vs. $4,130 for their American counterparts. Says Robert Noyce, the inventor and entrepreneur who now heads the Sematech research consortium: "It's like giving American workers a shovel and telling them to compete against a backhoe."

Today's quicksilver international capital markets are assumed by many people to flatten out differences in capital costs as investors whiz currencies around the globe in pursuit of the highest returns. High real U.S. interest rates and a decline in the dollar *have* hauled buckets of that restless foreign capital out of the ether. Since 1985, 60% of U.S. net investment has been financed from abroad. But it's not enough to meet all of America's needs—and Americans would not want it to be, since that would mean surrendering an ever-growing share of U.S. industry to others.


KAY CHERNUSH

Patient West German money will upgrade this former Bendix fuel injector factory.

Including depreciation, capital typically accounts for some 25% of all costs for manufacturers. "International competitors have a huge advantage over U.S. business on over a quarter of all their costs," says Peter Rona, CEO of IBJ Schroder Bank & Trust. "That handicap and its effects on management investment decisions are becoming the major competitive issues of our times."

EXPENSIVE MONEY forces U.S. managers to expend enormous mental energy on capital allocation decisions. Most hew tightly to tools of financial analysis that seek, with rocket science precision, to maximize investment returns on a project-by-project basis. But investing strictly by the numbers leads to perverse effects that stifle many worthwhile long-term investments. With high capital costs setting a high discount rate, safe long-term projects that offer lower returns are often spurned. Riskier projects make the cut because they promise bigger paybacks. Projects with quick payoffs sail through.

American managers are learning to stretch their relatively limited resources by thinking strategically. Enrique Falla, Dow Chemical's chief financial officer, estimates

DARYL ESTRIN—ONYX

Western Digital CEO Roger Johnson is building this factory mainly with internal funds

that the foreign-controlled companies that now own 32% of the chemical industry pay three percentage points less for borrowed money and six points less for equity financing. To compete, Falla follows a well-honed strategy that may not maximize returns in the short run but optimizes them over the long term. When it's done properly, he says, investors can appreciate the results.

Since it restructured in 1985 Dow has concentrated long-range spending on a small group of promising technologies—among them engineering thermoplastics and pharmaceuticals. Dow intends to be a leading producer in each, and expects each to yield market-beating earnings growth over time. This year Dow is spending more than $2.5 billion for R&D and long-term investments in these areas. The company looks for what Falla describes as "cascading technologies!'—related investments that complement each other and add up to more than the sum of their parts.

As Falla describes the strategy, Dow invests heavily to "feed the pipeline" with new products, and is prepared to absorb losses for five years or longer at the expense of short-term gains until the profits start pouring in. He expects that the reservoir he is filling today will supply Dow with earnings through a downturn in its notoriously cyclical industry.

The strategy doesn't end with new-product development. Dow's recent agreement to acquire a majority stake in Marion Laboratories would bolster its strength in pharmaceutical marketing and sales. Though the stock market marked Dow's shares down after the announcement, Falla thinks shareholders will eventually see the light. Says he: "Wall Street investors are rewarded by how much they beat the market this quarter. But if Dow's return on equity outperforms the S&P 500 by just 5% during an expansion and businesses like pharmaceuticals give it room for future growth when the economy heads into recession, the portfolio managers will brag about what a smart investment they made in every brochure they send to their clients."

NONETHELESS, there's no substitute for patient dollars. When foreign owners with deep pockets step in, promising businesses that languished for want of sustained investment under U.S. ownership typically begin to flourish. Allied-Signal Corp.'s Bendix Electronics Group was a pioneering leader in the development of engine sensors and antilock brakes. But it would have had to shell out $1 billion over the next five years and suffer an annual cash drain of up to $80 million to fully exploit those technologies. Unable to tolerate that expense, Allied-Signal last year sold Bendix to Siemens, the West German electronics giant.

By stepping up investment, Siemens plans to transform the renamed Siemens-Bendix Automotive Electronics Group from a so-so niche player into a full-line powerhouse. Says Timothy Leuliette, the former Bendix group president who now heads Siemens's new unit: "Instead of asking for monthly cash flow reports as Allied-Signal had, Siemens asks me what my business is doing to become the global leader by the end of the century." Siemens, rich with cash, plans to finance the expansion internally. And in any case, under West Germany's universal banking laws, the banks are among Siemens's largest shareholders. As such, they ar less concerned with quarterly or yearly ups-and-downs than with long-term prospects.

High capital costs hurt most at the cutting edge of technology. Experts who study the relationship between the producers of high-tech goods and their component suppliers liken it to a food chain. Components—semiconductors, for example—manufactured by one company find their way into, say, personal computers. A loss of competitiveness in the lower stages saps the vitality of more advanced industries that depend on their output. Says Alan McAdams, a professor at Cornell's business school: "The technology food chain is becoming dangerously eroded."

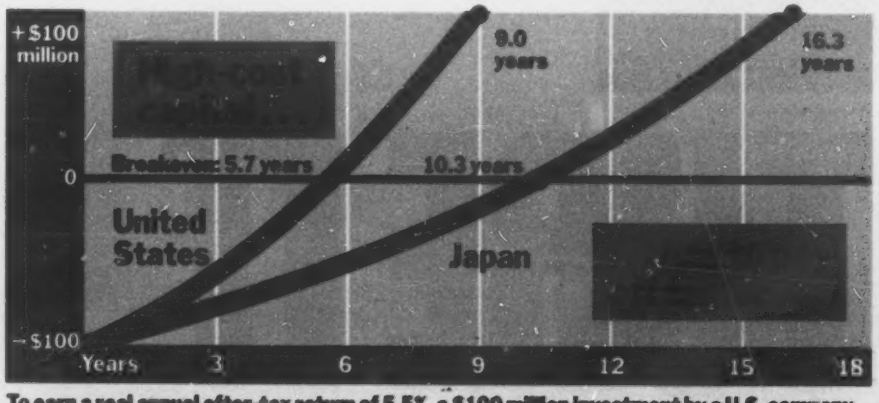
The plankton at the base of the chain is the omnipresent DRAM, the semiconductor memory chip used in products from digital wristwatches to supercomputers. Japanese chipmakers now control some 85% of the world memory market. U.S. chipmakers make a good case when they complain that Japanese dumping drove them out of business. But dumping only hastened the process. The big, vertically integrated Japanese companies were able to keep investing during the volatile chip industry's downturns, when smaller American firms cut back or dropped out of the business. Japan's cheaper money alone continues to give it a decisive edge in this hugely capital-intensive business. U.S. companies must depend on the equity markets to fund development and early manufacturing, while the Japanese can borrow at a quarter of the cost.

U.S. companies are aiming to get seriously back into the DRAM business by adapting part of the Japanese strategy. U.S. Memories, the joint venture underwritten

by Intel, National Semiconductor, Advanced Micro Devices, LSI Logic, IBM, Digital Equipment Corp., and Hewlett-Packard, plans to raise $1 billion in capital—half in equity from the founding partners and others yet to be enlisted, and the rest in debt. The company hopes to start production by 1991.

With IBM, DEC, and H-P aboard both as patient co-investors and steady consumers of its output, the new company should face less business risk—hence, a somewhat lower cost of capital—than stand-alone chipmakers had in the past. But the Japanese will still get their funds a lot cheaper. The best hope for U.S. Memories is that producers and consumers will pay a premium to ensure the survival of this link in the domestic high-tech food chain.

Even when an erstwhile startup is growing vigorously and doing everything right, it can get tripped up by the high cost of capital. Western Digital of Irvine, California, began building computer equipment in 1970; today it makes some 300 different de-



To earn a real annual after-tax return of 5.5%, a $100 million investment by a U.S. company must break even in just under six years. In Japan, where a 2.8% annual return suffices and corporate taxes and inflation are lower, the project need not break even for a decade.

vices that store, move, and display data in personal computers and computer networks. With sales approaching $1 billion annually in an industry expected to nearly double over the next five years, CEO Roger Johnson must steadily increase R&D spending to protect his product line from encroachments by larger companies—many of them based you-know-where—that are eyeing the increasingly attractive market.

Trying to outpace potential foreign rivals puts Johnson in a bind. As his product line expands, he is forced to invest across a broader front to defend his lead. This year Johnson plans to shell out some $130 million for new plant and equipment, plus $80 million for research, sums that are sure to spiral upward as Western Digital continues to grow.

Where to find the money? Johnson thinks borrowing is too risky because his products have such short life cycles that they may be obsolete before the debt is repaid. The stock market has been sour on technology stocks since the October 1987 crash, so a new equity offering would dilute Western Digital shares for too little new money. Johnson's only choice is to finance most investments internally. But typically he needs cash to bring a new family of technologies to market just as the old products are heading into their dotage and generating less and less revenue. Pitted against potential Japanese rivals, whose patient capital lets them invest steadily through technology life cycles, Johnson is fighting uphill. Western Digital must meet the required level of profitability in three years; its foreign rival can wait nine years.

All roads lead to the conclusion that higher capital costs result in a higher cost of doing business—one that no amount of ingenuity can overcome completely. How should the U.S. begin to close its capital gap?

Of the many schemes for raising the saving rate and otherwise leveling the capital playing field, three stand out:

■ **Phase in a consumption tax.** Long a favorite idea of economists, a broad-based consumption tax is the cornerstone for any serious effort to spur investment. It would boost saving both by trimming the budget deficit and by discouraging consumer spending. The tax might obviate the need for added saving incentives, such as allowing people to stash more money into tax-exempt individual retirement accounts. But if it didn't, the higher revenues it generated could help offset the costs of the incentives.

■ **Reduce the capital gains tax.** By raising the capital gains rate from 20% to 33%, the 1986 Tax Reform Act made an already sizable U.S. disadvantage worse. The Japanese government levies a tax of only 5% on realized capital gains. In West Germany gains on investments held six months are tax exempt. President Bush has proposed rolling back taxes on capital gains to 15%. Congress should rise above its "don't help the rich" grandstanding and go along. But it should limit the reduction only to investments held long enough—say three years—so that tax gambits will take a back seat to basic investment considerations.

■ **Equalize the tax treatment of debt and equity.** The 1986 Tax Reform Act raised the costs of equity financing by increasing the average corporate tax rate and leaving in place the double taxation of dividends. Since interest payments remain tax-deductible, companies have responded by swapping some $290 billion in equity—what in economic terms amounts to corporate savings—for debt over the past three years. That has still left them paying more for capital than they would have before tax reform.

The switch also turned much of that equity into spending money for consumers, according to two MIT economists, Paul R. Krugman and James M. Poterba, and George N. Hatsopoulos, chairman of the Boston Federal Reserve and also of Thermo Electron Corp. In a paper published last spring, the three concluded that the former shareholders who traded in stock saved just 50 cents of every dollar they netted.

At least two serious proposals for equalizing the burden are floating around. Krugman, Poterba, and Hatsopoulos would replace the current interest deduction with a credit equal to 5% of both equity and debt financings. Congress's Joint Committee on Taxation proposes allowing companies to deduct 60% of dividends and 60% of interest. Either method would be complicated to phase in, but should generate roughly the same tax revenue as the current system.

The ultimate goal should be to lift national savings to around 11% of GNP, the rate that would close the capital cost gap entirely. The tax changes proposed here would go a long way toward accomplishing that. At stake is nothing less than nation's ability to compete with the rest of the world. ■

HOW TO SPREAD POTOMAC FEVER

Corporate chiefs think government officials are forced to make unreasonable sacrifices. The CEOs' solution: higher pay and less scrutiny of personal lives. ■ *by Alan Deutschman*

CALL IT THE Beltway brain drain. A Federal Reserve governor quits to take a more lucrative job in private industry. Key technocrats eject from NASA. Leadership positions remain unfilled seven months into the Bush Administration. Is anyone out there taking notice?

Absolutely. The latest FORTUNE 500/CNN Moneyline CEO Poll shows that corporate bosses are distressed by the difficulty of attracting new talent to the Potomac and by the exodus of experts from those muggy shores. The issue hits close to home: Many CEOs have long harbored a sneaking ambition for a high-level job in government. But nowadays they wonder whether it's worth the sacrifice. When asked what change would best attract the ablest business people to Washington, 37% said eliminating the overzealous scrutiny of an appointee's personal life and finances, and 33% called for higher pay scales to compete more effectively with the private sector.

FORTUNE's poll was conducted by the independent opinion-research firm of Clark Martire & Bartolomeo. The respondents, 206 CEOs of FORTUNE 500 and Service 500 companies, were interviewed between July 10 and July 18. Shortly before the poll took place, President Bush called for pay increases of up to 25% for 7,900 senior officials in the executive branch. An overwhelming 94% of the CEOs approve.

"Compensation is the most important factor," says Lawrence Klamon, CEO of Fuqua Industries. "It is critical to attracting and keeping better people." His peers agree heartily. Fully 89% of the executives say pay for federal appointees is too low. Bush's recent pay-hike proposal, although much needed, is not nearly as generous as many CEOs would have liked. Some 85% say that lawmakers should have enacted an earlier plan for a 51% increase, lifting pay from $89,500 to $135,000 for Congressmen, Senators, and senior officials such as deputy Cabinet secretaries and chiefs of regulatory agencies.

The hitch with the earlier proposal came in linking the salary of, say, the head of the Food and Drug Administration to that of the legislators, who feared the wrath of constituents. After public outcry swelled, the House lost resolve and killed the pay-raise bill in February. "Because of Congress, others are suffering," says Klamon. "There ought to be a way to unbundle the payrolls. If Congress can't take the heat, we shouldn't penalize the judicial and executive branches."

"The process for choosing first-rate people is cumbersome and slow."

WILLIAM RUCKELSHAUS
Browning-Ferris

KATHERINE LAMBERT

The cap on compensation presses cruelly on the less visible layers beneath the top, says Klamon: "It puts pressure on the deputy assistant secretaries, who are younger, less affluent, and don't get the recognition. It's there, down the line, where so much of government policy is made." Klamon should know: He was on the staff of Secretary of Defense Robert McNamara in the early 1960s. Now, along with other corporate executives who once held positions in Washington, he lobbies for a higher quality of appointees as a member of

Q Over the past ten years, has the quality of high-level federal appointees increased, decreased, or stayed about the same?

A

Increased	24%
Decreased	25%
The same	50%
Not sure	1%

Q Is pay for federal appointees too high, too low, or about right?

A

Too high	0%
Too low	89%
About right	8%
Not sure	3%

Q This year a proposal to raise the pay of Senators, Congressmen, and senior civil servants by 51%, to $135,000 a year, was defeated. Should it have been enacted?

A

Yes	85%
No	15%

Q A few days ago, President Bush proposed a pay increase for top officials in the executive branch of the federal government. Do you approve of this proposal?

A

Yes	94%
No	2%
Not sure	4%

the Washington-based Council for Excellence in Government.

Making compensation more competitive is vital, too, if we are to hold on to good career civil servants, the CEOs say. "We're losing very good people in the government over the question of pay," says William Ruckelshaus, who led the Environmental Protection Agency in two Administrations and currently serves as CEO of Browning-Ferris Industries.

Income is rarely a constraint for the CEO who quits at age 62 for a second career in the capital. He has made his pile by then. But for younger managerial talents, the opportunity costs can be prohibitive. Says Rand Araskog, CEO of ITT: "When people leave top executive positions, they're usually ready for retirement. It's easy to get a lawyer or consultant to go to Washington"—he can make a name for himself there—"but without correcting the pay and incentives it's hard to attract a CEO who's in mid-career."

Araskog argues that corporate executives who have already restructured their own bureaucracies are just the right people to run big federal organizations. But too often, he says, they're not the ones asked to serve. Araskog criticizes President Bush for picking senior officials through a spoils system, thereby failing to tap top-caliber outsiders: "Appointments depend so much on political pull and campaign obligations. It's a sick situation in Washington today, and I think it has gotten worse. Bush has done so little compared to what he said he would do. He has violated his campaign promises on appointments, and I'm disappointed."

"Appointments depend so much on political pull and campaign obligations. It's a sick situation."

RAND ARASKOG
ITT

ANDY FREEBERG

Even if CEOs were called to duty, many claim they would shrink from subjecting their personal lives and finances to intense public scrutiny. A majority (53%) said the financial disclosure requirements for appointees are "too strict." Says Maurice Greenberg, CEO of American International Group: "The disclosure rules have become so bizarre that many good people are turned off. They don't want to go through a total baring of their soul, even though they don't have anything to hide. Why do you have to put every facet of your life on public display?" Business bosses are also irked by restrictions circumscribing what you can do after you serve, particularly the rules put in place recently. Says Harry Todd, CEO of Rohr Industries, which does one-third of its business with the government: "You can't do a bloody thing for a couple of years after leaving. What are these people supposed to do, go fishing?"

Q A How would you describe requirements for federal appointees, including financial disclosure rules and post-employment restrictions?

Too strict	53%
Too lax	7%
About right	38%
Not sure	2%

Q A What changes in federal rules would most attract talented business people to government service?

Reduce public disclosures	37%
Increase pay	33%
Improve ability to return to area of expertise afterwards	9%
Relax rules on divestiture of personal investments	9%

Although most CEOs recognize the need for some rules to prevent conflicts of interest, they think the ethics mania has gone too far. "It's difficult to find enough Sir Galahads who are willing to serve in government," says Alexander Giacco of Himont Inc. W. W. Sprague, CEO of Savannah Foods & Industries, agrees: "The Mr. Clean questionnaires are unrealistic."

Respondents were particularly fearful of the daggers lurking on Capitol Hill. Many cited what Supreme Court nominee Robert Bork went through as a cautionary example. "Congress feels immune from the restraints against unfair attack and character assassination that ward off the best of men," says Robert G. Reed III of Pacific Resources. Adds Allen Jacobson of 3M: "We must eliminate the very political approach the Senate takes to giving its advice and consent."

Even for candidates who aren't particularly controversial, the nomination and confirmation process can seem a big drag. "The process for choosing first-rate people is cumbersome and slow," says Ruckelshaus. When he returned to the beleaguered EPA in 1983, he demanded authority to circumvent the usual procedures and pick his own lieutenants, subject only to President Reagan's final approval. He swiftly chose 12 appointees, who then were cleared by Congress without a single dissenting vote. Time elapsed: 45 days. Ruckelshaus recalls, "The President sent a clear signal. Barring a Karl Marx, these people would be approved."

CEOs recoil from government jobs for other reasons besides pay and disclosure. Some say they're most discouraged by the monumental effort needed to produce real change in Washington. Others are put off by the persistent stench of past scandals. Says Martin Walker, CEO of M.A. Hanna Co., a manufacturer of specialty chemicals: "I've thought many times about taking a government post, but my interest has been diminished by the inordinate number of bad appointments under Reagan and Carter. I can handle the loss of salary, but I wouldn't want to be a laughingstock, taking a position that has been demeaned."

"Because of Congress, others are suffering. There ought to be a way to unbundle the payrolls."

LAWRENCE KLAMON
Fuqua Industries

BOB NELSON-ACTUE GROUP

John T. Morgan, CEO of American Savings Bank, agrees: "Serving in Washington is like being in the military after the Vietnam war. It is *not* an honor, and that's too bad." Before joining the private sector, Morgan spent ten years at the State Department and two as a bank regulator. How, he asks, can we "restore the sense of importance—of *grandeur*" that public service once had? Maybe you start with little things, like a little respect for the intelligence and character of the nominees during the confirmation process. Spirals lead up as well as down. F

FRIEDMAN ON DRUGS

Milton Friedman's contention that we should legalize drugs ("Stars of the 1980s Cast Their Light," July 3) is irresponsible and dangerous. Everyone's life is threatened by the plentiful presence of drugs. Friedman's motive is to free the police force to protect us "from theft and crime." But many criminals are substance abusers. We could similarly free the police to concentrate on crimes against property by legalizing murder and rape.

ANDRIUS SULSKIS
Saint Charles, Illinois

THE JAPAN FUND

We were pleased that you mentioned the Japan Fund in "Tokyo's Bull Has Further to Run" (Personal Investing, July 3). However, I would like to point out that the fund is now a pure no-load, open-end mutual fund, not a closed-end fund as you said.

DAVIA B. TEMIN
Vice President, Scudder Stevens & Clark
New York City

NEW ZEALAND'S INFLATION

"Are We Too Scared of Inflation" (June 19) cited New Zealand as having an inflation rate of 12.7%. Actually our inflation rate has declined to 4%. We haven't had double-digit inflation for over a year. After all the pain of the past few years, I would hate to think that Americans believed that New Zealanders can't get their act together.

RICHARD FINNY
Public Relations Manager
Sheraton Auckland Hotel
Auckland, New Zealand

MICHIGAN'S GOVERNOR

"A Business Guide to Bush Country" (July 17) contains an error many of us in Michigan only wish were true: The guy on the right in the picture with the caption "Republican governors . . . watch . . . President Bush" is James Blanchard, Michigan's Democratic governor.

DAVID C. YATES
Yates & Co., Financial Consultants
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HOW CLEAN IS ENOUGH?

Anyone who puts a price on the environment as you have done in "Air: How Clean Is Clean Enough?" (July 17) should visit those UCLA doctors to see whether all that ozone is clouding their thinking. As a scientist, I know all too well that research progresses at a snail's pace. Why do we need "proof" when further reduction of pollutants can only benefit us? Certainly cost is an important consideration, but what will man do when the last forest is cleared and the last lake is poisoned? Will he eat his money?

ADAM Z. GILESKI
Princeton, New Jersey

CORRECTION

"America's 50 Biggest Exporters" (July 17) misstated Eastman Kodak's 1988 export sales figure; it was $2,771 billion, not $2,301 billion. The change does not affect Kodak's rank.

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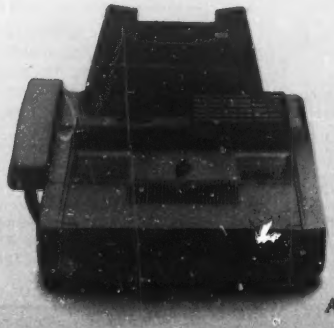

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